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SUBJECT: Scope Paper and Issues for Assistant Secretary Hill's June 14-18 Visit to Mongolia

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¶1. (SBU) SCOPE: Assistant Secretary Hill's visit to Mongolia fulfills the dual purposes of: 1) reinforcing the strong U.S.-Mongolia relationship and, 2) attendance at the Asia Society's June 15-18 Williamsburg conference (the conference is covered in a separate memo). This visit fulfills a long-standing invitation by the Government of Mongolia (GOM) that was made when A/S Hill visited as part of the November 2005 POTUS delegation.

¶2. (SBU) MEETINGS: Separate meetings have been requested for A/S Hill on Friday, June 15, with President Enkhbayar (over lunch hosted by the Ambassador, also attended by Foreign Minister Enkhbold), Prime Minister Enkhbold, State Great Hural (parliament) Speaker Nyamdorj, and Minister of Defense Sonompil. A/S Hill will likely first meet President Enkhbayar at the dinner hosted by the President for the Asia Society the evening of June 15. A television interview with a U.S.-affiliated TV station and a meeting with the local press is planned for the final evening of A/S Hill's stay. The issues below will likely be the main points of conversation with official interlocutors and the press. Ambassador Minton returns to Mongolia on June 4, and we are seeking calls on the leadership before your visit to review his consultations in Washington and do spadework on these issues before you arrive.

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ISSUES  
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Iraq Rotation  
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¶2. (SBU) The National Security Council (President, Speaker and Prime Minister) likely will meet next month to consider sending an 8th rotation of 100 plus troops to Iraq. The 3-month extension of the 7th rotation -- hastily arranged after President Bush's March 5 phone call to President Enkhbayar -- will run out July 1. Your role may be to thank the Mongolians for a decision before the visit to dispatch the 8th rotation, but it is as likely to be to urge them to continue to play their vital force protection role for troops at Camp Echo - Polish now, but possibly Georgian in the near future. You will also have an opportunity to personally thank Mongolian troops that have served in coalition efforts in Iraq and Afghanistan.

Millennium Challenge Account Compact  
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¶3. (SBU) Bilateral work on the compact has been proceeding well,

and a Mongolian team likely will go to Washington in July to finalize the language of the agreement. This is a dramatic change from only five months ago, when two and a half years of inconclusive discussions on projects had led to deep frustration on both sides. The rapid progress means that this will mostly be a "happy news" item in official discussions, but there will be some latent angst about the process and the transformation and shrinkage of the compact projects from the \$300 million total proposed by the Government of Mongolia in October 2005 to somewhat more than half that figure. The remaining projects are railroad, vocational education and preventive health projects, with the \$129 million railroad project dominating the compact. President Enkhbayar very much hopes to sign the compact during his proposed October trip to Washington, but this likely depends on Congress providing MCC with its FY 2008 funding in time. We've emphasized this point to the government repeatedly.

North Korea  
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14. (SBU) President Enkhbayar is due to visit South Korea from May 28-30. On good terms with both Koreas, Mongolia will be intensely interested in Assistant Secretary Hill's perspective on the Six Party Talks. Mongolia has repeatedly offered to participate in the peace process (7PT?) and sees itself as a model for North Korea's peaceful transformation from communism. Mongolia has said the right things after past North Korean provocations, condemning the nuclear test, for example. Mongolia has been extremely cooperative on DPRK money-laundering and counterfeiting issues, but its poor law enforcement and regulatory effectiveness has led to concern that North Korea might turn to Mongolia as a convenient place for illegal acts -- one reason the Embassy has advocated U.S. technical assistance to Mongolia's fledgling anti-money laundering unit.

ULAANBAATA 00000310 002 OF 003

Mongolia should be praised for the discreet but accommodating assistance it provides for resettlement of North Korean refugees to South Korea and other countries. Mongolian officials will stress they treat this as a "humanitarian issue" and some may seek additional U.S. funding to support refugees.

The Neighbors: Between the Bear and the Dragon  
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15. (SBU) Assistant Secretary Hill's interlocutors will be interested in U.S. views of China and Russia, and in turn should be probed for their own perspectives. Mongolia's quest for "third neighbors" like the United States is explained by its unenviable geographic disadvantage as a landlocked state surrounded by these two Great Powers. Mongolia is careful to maintain balanced, good relations with both nations, but there is a deep wariness about the Chinese and the dangers of economic domination by their former occupier. Russian depravities during the Soviet period appear to be excused because of gratitude that Russia enabled Mongolia to escape Chinese clutches in 1921 and its construction of hospitals, schools, road, airports, etc. -- but there are bitter memories over the very deep economic recession in the 1990s when the Russians abruptly cut off subsidies. Both Russia and China have noticed Mongolia's world class deposits of minerals like copper and coal, and their companies are clamoring for privileged access to new mines.

Rising U.S. Investment Interest  
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16. (SBU) U.S. companies have also noticed Mongolia's minerals -- and Mongolia may see big advantages in having non-neighbors develop its economy, and in the better mining practices of Western firms. U.S. coal giant Peabody has official advocacy support from the Commerce Department for a role in the development of the Tavan Tolgoi coal deposit. Phelps Dodge is partnering with the Mongolian government to explore for new copper deposits near Erdenet, Fluor is the contractor developing Rio Tinto/Ivanhoe's Oyu Tolgoi copper/gold mine, and the local Caterpillar distributor's business may boom as new mines get developed. It should be noted, however, that mining companies' assessment of Mongolia declined sharply in 2006, due to passage of a confiscatory "windfall profits tax" on copper and gold

and amendments to the mining law that envisaged the government taking a 34-50% equity share in major new mining projects. Investor confidence has recovered somewhat after the government and Rio Tinto/Ivanhoe reached a tentative deal on Oyu Tolgoi in April, but remains fragile.

¶7. (SBU) For its part, Mongolia is enamored of concluding an FTA with the United States, and formally asked USTR in March to agree by the end of 2007 to a roadmap toward an eventual FTA. Mongolia is convinced that an "FTA lite" could be concluded with them on the basis of their political ties with the U.S., skipping over the messy business of meeting usual U.S. benchmarks for FTA readiness. Assistant USTR Tim Stratford told them in March that, for a variety of reasons, a bilateral FTA wasn't possible, but committed to finding some concrete step the U.S. and Mongolia could take toward freer trade and investment. USTR has identified a possible step and is vetting it internally. The step may be unveiled to the Mongolians shortly before Assistant Secretary Hill arrives.

¶8. (SBU) We suggest that A/S Hill endorse USTR's concrete step, and note our support for Peabody's involvement in the Tavan Tolgoi coal project.

Peace Corps: Give Us More!  
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¶9. (SBU) Mongolia has one complaint about the Peace Corps: there aren't enough Volunteers here. Instead of 100, Mongolia would prefer 1000. As Prime Minister from 2000-2004 and as President, Enkhbayar has been particularly appreciative and supportive of Peace Corps activities in Mongolia, and vocal in asking for more Volunteers be sent. The incoming Peace Corps Volunteer classes in 2006 and again this year will set new highs. After his April visit here, Peace Corps Director Tschetter committed to a gradually increasing number of Volunteers, with each new class being about 10% larger than its predecessor.

Deliverables for President Enkhbayar's Trip  
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¶10. (SBU) Both the President and the Foreign Minister will likely

ULAANBAATA 00000310 003 OF 003

focus heavily on the agenda for Enkhbayar's notional October trip. As to timing, it is unlikely that the White House will have firm dates until much later in the summer. From Enkhbayar's standpoint, having won the internal Mongolian government struggle over who would take the honors, signing the MCA Compact is a nearly essential part of a successful trip.

¶11. (SBU) There is a good selection of other potential deliverables. A problematic one is MFA's desire that the trip include signing of the "Comprehensive Partnership Framework Agreement" (CPFA) it proposed during DAS Christensen's visit here in January. Not only are some of the contents nonstarters -- like reference to an FTA -- the document is meant to be legally binding, despite our warnings that this would be much more difficult for the U.S. and not of any apparent advantage in a document which would be largely declaratory statements of intentions to work together more closely. Rather than carp at or edit down the Mongolian draft CPFA, however, we suggest that, with the NSC's concurrence, Assistant Secretary Hill suggest instead that the two sides should work toward

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a good presidential Joint Statement over the next few months.

¶12. (SBU) There are also a mix of other issues which have a good chance of being ready by October, with work by both sides.  
-- In early June, the U.S. and Mongolia will also discuss revisions to a draft agreement on military cooperation, which will reaffirm the commitment to work together as Mongolia reorients its military toward international peacekeeping operations.  
-- The U.S. has told Mongolia through the UN that we are interested in assisting them to be able to meet UN Security Council Resolution 1540, on the control of WMD. This would be done as part of the Department of Energy's "Second Line of Defense" program. A draft

MOU on the cooperation is undergoing interagency clearance on the Mongolian side, and a U.S. team would visit to discuss the program after the Mongolian side is ready to commit to the MOU.

- The Mongolian government also has approved negotiating a PSI ship boarding agreement with the U.S., and the GOM is coordinating interagency positions on the U.S. draft before asking a U.S. team to visit. MFA interlocutors express confidence the agreement could be ready before October.
- On a unilateral note, INL has earmarked \$670,000 in FY 2008 for a new program of law enforcement assistance. An INL officer will visit next month to investigate possible focuses. Reference to this new assistance could be made in October.

¶13. (SBU) Finally, we think it would be useful for Under Secretary Dobriansky to visit Mongolia, hopefully before President Enkhbayar comes to Washington. The breadth of U.S. and Mongolian cooperation in the areas in her portfolio -- Community of Democracies Convening Group, democracy/human rights, refugees, trafficking in persons, HIV/AIDs, etc. -- illustrate that the truth of the "comprehensive partnership" description for the relationship. A visit by the Under Secretary would be a unique opportunity to work these issues and to

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highlight cooperation shortly before President Enkhbayar's U.S. visit. Stating Under Secretary Dobriansky's intention to visit Mongolia would be a useful step during the A/S Hill visit.

Goldbeck